SUBMISSION TO THE 2021-22 VICTORIAN BUDGET

Prosper welcomes the opportunity to contribute to the 2021-22 Victorian Budget.

We are an independent, Melbourne-based research institute with a focus on the management of exclusive and essential resource allocation through revenue policy. This includes land and other natural resources, essential services that are most efficiently provided by one supplier, and government-instituted monopolies such as taxi and fishing licences.

It is our position that the unearned and unproductive streams of private income derived from these elements of our economy should be more heavily taxed. Meanwhile, taxes on the productive sector should be eased, making for a more equitable and more efficient economy.

It is from this position that we present our Victorian budget submission.

The Victorian Government has done well in the face of the COVID19 pandemic, and on balance enacted an excellent fiscal response relative to all other governments in Australia. Prosper thanks the government and treasury for prioritising fiscal stimulus, and in directing that stimulus to areas of great public benefit.

In contrast to this, Prosper believes some tax relief policy was misguided Stamp duty relief feeds into higher land prices, exacerbating affordability pressures and running counter to the government's laudable social housing program.

The short term challenges have largely been addressed, and it is encouraging to see the government considering long term fiscal reforms. Prosper applauds the government's willingness to pursue measures such as road user charging for electric cars. While it is unfortunate that Stamp Duty to Land tax reforms have been shelved for the time being, we hope the government will revisit it in coming years.

Thank you for this opportunity to contribute our unique perspective. Should you wish to contact us, I have provided my details below.

All the best,

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1. Recent policy developments

1.1 COVID stimulus property tax concessions and subsidies

Recommendations:

- Continue to taper all land tax, Vacant Residential Land Tax, stamp duty concessions/discounts and homebuyer subsidies by 2022.

The COVID crisis called for significant fiscal support, and Prosper supports the government's efforts to undertake one of the biggest fiscal responses in recent history. However while the overall response was well done, we remain cautious of various property tax relief and subsidy measures.

Measures to provide land tax relief on the provision of rent relief for tenants (and owner-occupier businesses) were well placed. Further land tax relief that does not provide direct relief to tenants will have little economic benefit. This includes waivers of the vacancy tax.

We note that a large number of inner city apartments remain vacant. This coincides with the return of the homeless to the streets, a long public housing waiting list, and stamp duty discounts and buyer grants which will drive property prices higher and make housing unaffordable. While efforts to expand and invest in public housing are overdue, without coordinating tax policy levers, these efforts will be undermined.

Prosper supports the government's fiscal strategy in tapering all property based tax and subsidy support by the end of the financial year. We do not support the regional industrial/commercial stamp duty concession, as it will more likely push up land values than stimulate any additional capital investment. These kinds of concessions should take place in the context of wider stamp duty to land tax reform.

1.2 Public asset development

1.2.1 Public Toll roads

Prosper commends the government for its boldness in retaining Tolling Rights in public ownership, through the State Tolling Corporation. For too long monopoly tolling rights have been sold off to private investors to the detriment of the public. This move towards considering and adopting public alternatives to Public-Private Partnerships (PPPs) financing and funding is a welcome development.

We look forward to comparing the performance of the public company to its private counterparts. In time we expect lower public financing costs and retention of profits will demonstrate expanded public ownership over monopoly tolling rights is in the public and state's interest. It is important the government continue to prosecute the benefits of this public ownership model, against potential future governments moving to privatise this monopoly.

1.2.2 Public/social housing

Recommendations:

- Investigate a pilot for a *Land Rent Scheme* or *Community Land Trust* program

Prosper commends the government for its sensible and long overdue investment in public housing. We are relieved the government will leverage its public land assets for this purpose, as we have called for in previous budget submissions. Public land retention enables *fiscally* sustainable and affordable housing. This is superior to previous proposals that cross-subsidising housing renewal via public land sales. We also commend the government for its use of surplus land in the inclusionary housing pilot and implementation of the Government Land Planning Service.

The investment in public housing is substantial. Inner city rents have fallen substantially due to low immigration, and homebuyers have been incentivised by record low interest rates and subsidies. However a long term plan is needed. We thank the Government for launching the *Ten-Year Social and Affordable Housing Strategy for Victoria* to take on this role.

Prosper expects this brief improvement in housing affordability to deteriorate again in coming years. Increased immigration, further reductions in investor borrowing costs, and winding back of responsible lending regulations at the federal level are foreboding. The current COVID stamp duty discounts have added heat to the market, and may well contribute to future mortgage stress, whilst further down the line adding to public housing pressures.

A long term solution for fiscally sustainable, and perpetually affordable housing is needed. Prosper continues to advocate the government **pursue *community* shared equity or third market housing solutions at minimal to neutral budget cost,**[1] but with significant and substantial affordability savings. This can be done by leveraging and expanding public land assets (see our 2020 budget submission, section 3.2.1).[2]

1.2.3 Shared equity - Victorian Homebuyer Fund (HomesVic)

Recommendations:

- Continue expanding *private* shared equity over buyer subsidies and tax concessions
- Fully account for the housing subsidies involved for participants in the scheme and its balance sheet impacts
- Restrict the shared equity contribution to the land component of the property
- Improve the visibility and accessibility of the scheme e.g. through video explainers.

Prosper continues to tepidly support the government's pursuit of *private* shared equity models. While these models are superior to stamp duty discounts and first homebuyer grants, we caution they still have some drawbacks.

[1] https://www.prosper.org.au/wp-content/uploads/2018/09/Unspoken-Alternatives-final_print_web.pdf
[2] https://www.prosper.org.au/wp-content/uploads/2021/03/2020-VIC-State-Budget-Submission.pdf

The advantage of these models is that unlike tax concessions and subsidies, they are fiscally sustainable. They also allow homebuyers to buy their own home without needing to commit to buying the full stake of the financial investment in the land.

The disadvantages of these models are that firstly they continue to inflate demand for property. This contributes to affordability pressures for other buyers, without providing a perpetually affordable solution for housing.

Secondly there is a tacit subsidy involved that has hidden budget implications which do not appear to be accounted for. *When the government buys an equity stake in a property, in principle it should be able to charge an equivalent proportion of the market rent to the occupant i.e. if the government buys a 20% stake, it could charge 20% of the market rent, in addition to the entitlement to an equivalent proportion of capital gains/loss.*

It appears the government is forgoing this rental income as an implicit housing subsidy. Therefore the loss to the government of shared equity purchases is not merely the government's upfront borrowing cost for purchases, but also the foregone rental income. We note that this does not directly cost the budget, but rather reduces the return to the program and subsequently the potential available funding for future participants.

It is also not clear how the equity stake relates to land and improvements, and the risks associated with the building e.g. if the building is destroyed or depreciates, does the government wear the risk of the building? It appears so. This is compounded by the fact that the key details around the obligations to applicants are not transparent or available online, and can only be accessed once well into the application process.

We recommend that the equity stake be limited to the land component, and that changes in improvement values and risks associated with improvements not be eligible for shared-equity. Notably this is less of a risk given the maximum contribution is 25%, but could be an issue for apartments with high improvement to land value ratios.

Another issue is the slow uptake of the scheme. Despite a small pilot of 400 positions, uptake has not yet reached close to completion. We suspect this is not due to the design or attractiveness of the scheme, but rather its low accessibility. Currently the scheme has a large number of bureaucratic and administrative steps to make a successful application, and is not easily understood. Prosper notes even though there is a first homebuyer guide webpage[3] that links to the scheme, it's not clear if the public is aware this assistance is out there and where to look. Nor is it easily understood what the shared equity model entails. Videos could be much more effective in explaining the scheme and promoting its visibility.

[3] https://www.vic.gov.au/first-home-buyer-guide

1.3 NSW Stamp Duty to Land Tax proposal

Victoria and New South Wales have both made great progress in pursuit of reforms of Stamp Duty to Land Tax. We are disappointed Victoria has put this on hold. The NSW proposal is a path forward, although we note there are some significant drawbacks to the proposal. Our comprehensive analysis can be found here.[4]

In summary, Prosper cautiously supports the proposal as a workable *first phase* of the reform, although it is clear the model is costly to implement. In the long run a different model will be needed for higher value properties that are more costly to grandfather.

We have a number of potential implementation strategies available to discuss with Treasury.

1.4 Local Government Rating System Review Response

Prosper welcomes the Government's assurance that local governments will retain the autonomy to select Site Value as a valuation base for local government rates. While local governments do not currently utilise this option, the potential benefits of the site value base warrant its retention.

It is unfortunate (although understandable) that the more politically difficult recommendations around exemptions, concessions etc. could not be adopted. However the commitment to examine a valuation averaging mechanism is a positive development. We note that the ACT uses such methodologies for it's much higher taxing council rates regime.

We remain concerned about continued rate capping for local councils and potential impacts on local government fiscal sustainability. It is notable that (regressive) waste charges have not been capped, and increased substantially since rate capping - the recycling crisis aside. Prosper remains skeptical of ongoing rate capping and looks forward to the upcoming review in late 2021.

1.5 Build-to-rent

Recommendations:

- Place conditions on Build-to-Rent tax concessions that they become void if prolonged vacancies are detected

Prosper is disappointed with the announcement of Build-to-Rent land tax discounts and exemptions from the Absentee Owner Surcharge. We do not believe these tax concessions are warranted, however it is a relief that these will sunset in less than 2 decades rather than become a permanent hole in the land tax base.

4 https://www.prosper.org.au/wp-content/uploads/2020/07/STAMP-DUTY-TO-LAND-TAX_-THE-REVENUE-IMPACTS-OF-GRANDFATHERING-AND-OPT-IN.pdf

Prosper remains concerned about the market power of a build-to-rent industry, as well as the behaviour and incentives for corporate landlords. We note that a large amount of speculative vacancies continue to exist in the existing (non-corporatised) rental market even with an (albeit ineffective) vacancy tax.

There is reason to believe that as the rental market becomes more concentrated in the hands of a few landlords, market power will increase and the incentive for vacancies could increase (if rental stock can still be speculatively sold off as desired). We note that high commercial vacancy rates persist in the highly corporatised non-residential sector, and it is possible commercial rents could be more price sticky than residential rents due to this.

An effective compromise would ensure that Build-to-Rent owners with prolonged vacancies (i.e. preferring to hold housing vacant rather than cut rents to secure new tenants), void their land tax and absentee owner surcharge tax concessions. This condition would help corporate landlords maintain the right incentives to focus selling housing services in return for these concessions, rather than speculating on changes in rental and property market conditions.

2. Land and housing supply measures

2.1 Refocus Affordability Policy away from increasing Supply

Recommendations:

- Refocus housing affordability policy from increasing supply for developers to ensuring existing supply is released efficiently.

2.1.1 Cease to consider land supply release as development stimulus

In 2020, the Government committed $52 million to "implement the Commissioner for Better Regulation's planning reforms and to grow housing supply across the State through the Victorian Planning Authority programs Affordable by Supply and Streamlining for Growth." [5]

Deregulation and increasing supply to developers has not, and will not, solve the state's housing affordability crisis.

Plan Melbourne states 15 years supply as a sufficient public policy aim. The most recent Urban Development Plan - Broadacre report found available land supply averaged 21 years across our growth areas.[6] Melton has 42 years and Hume-Mitchell 30 years available land supply. The Victorian government has more than doubled the broadacres supply from the pre 2010 era of 150,000 lots to some 350,000 lots over the following 8 years.

[5] A Place to Call Home: Victoria's Big Housing Build, Victorian Budget 2020/2021, https://www.budget.vic.gov.au/place-call-home-victorias-big-housing-build

[6] Urban Development Plan - Broadhectare Metropolitan Melbourne report, table 2, p14 https://www.planning.vic.gov.au/land-use-and-population-research/urban-development-program

However, this supply pipeline has not rectified affordability concerns or reduced the price of housing. The market power of developers induces them to reduce supply when prices decrease. Despite more than 30 years available land supply, prices continue to head northwards in Mickleham, home to some of the nation's largest master-planned communities. The slight pricing downturn in early 2020 was immediately followed by the countervailing change in supply, indicative of price preservation.

All the way along, the absence of accurate data on the time taken for housing to reach the market is overlooked. Inaccurate vacancy figures have allowed these "supply-side" narratives to dominate the public debate.

Dr Cameron Murray's economic analysis has found that this 'supply side myth' is inappropriately utilised to justify the removal of planning regulations. His analysis has revealed a supply surplus, and "planning approvals typically far exceed dwelling construction, implying that more approvals or changes to planning controls on the density and location of development cannot accelerate the rate of new housing supply".[7] Therefore, increasing land supply is an ineffective policy strategy for improving housing affordability.

As Dr Murray recognises, "if the story were true, then property developers would be foolishly lobbying for policy changes that reduce the price of their product and the value of the balance sheets, which mostly comprise undeveloped land".[8]

Additionally, the static models utilized to justify deregulation, including by the RBA, do not reflect the market reality and fail counterfactual analysis. Dr Murray's dynamic equilibrium model, which reflects how market behavior changes over time, demonstrates the incentive of suppliers to curtail the release of housing stock and leave property vacant until scarcity, and therefore prices, rise.[9]

2.1.2 Escalating Vacant Land Tax surcharge over time

Recommendations:

- Investigate introduction of a land tax surcharge for readily developable land that remains vacant for extended periods

If the government wants to increase the amount of developable land supplied to the market, it needs to use a stick to ensure developers do not bank their large stock of land supply for additional profits. An effective mechanism to counteract this perverse incentive is to levy an escalating land tax surcharge over time based on the number of years the land has remained undeveloped for. This is currently done in South Korea.[10]

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[7] C Murray , The Australian Housing Supply Myth, 2019, https://econpapers.repec.org/paper/osfosfxxx/r925z.html
[8] Ibid,
[9] C Murray, Marginal and average land lots should not be equal: A critique of Glaeser and Gyourko's method for identifying residential price effects of town planning regulations, https://journals.sagepub.com/doi/abs/10.1177/0308518X20942874?ai=1gvoi&mi=3ricys&af=R
[10] Hass, A., & Kopanyi, M. (2017). Taxation of Vacant Urban Land: From Theory to Practice. International Growth Center, London School of Economic and Political Science: London, UK.

An alternative is 'use or lose it' regulations, but we believe that in Victoria an escalating land tax surcharge would be a simpler mechanism to achieve these objectives. This could be used for residential and commercial vacancies alike.

2.2 Increasing the efficient usage of existing housing supply

Recommendations:

- Government intervention, particularly tax reform rather than increasing supply, is necessary to repair the market failure generated by land's status as a monopoly resource. This can be done through stamp duty to land tax reform.

Housing affordability is not only dependent on the amount of houses available in the market, but the efficient usage of those houses.

Removing stamp duty and increasing land tax will increase efficient usage of current housing stock. Stamp duty constitutes a tax on moving house. Therefore, it discourages homeowners from downsizing or moving into appropriate sized housing: an elderly single person is encouraged to occupy a house that comfortably housed their spouse and four children. Complex or growing households, such as a multigenerational family group are discouraged from upsizing, and might occupy separate dwellings, rather than a single property.

With the abolition of Stamp Duty, first home buyers, for example young couples, are able to purchase properties suited to their current circumstances, such as 1 bedroom units, without needing to anticipate their future needs and changing family size. This allows younger Victorians to access a more affordable property type and enter the market sooner.

Similarly, increasing land tax encourages property owners to occupy dwellings that are more appropriately sized for their circumstances.

2.3 Vacant Residential Land Tax

2.3.1 Improve the design and enforcement of Vacant Residential Property Tax

Enforcement Reform Recommendations:

- Heavy penalties e.g. up to $10,000 per day, should be imposed for the failure to lodge a vacancy notification.
- Vacancy to be monitored by a means that includes water usage data.
- Increased investment in enforcement. Tax auditing should focus on high risk, high vacancy and unaffordable areas.
- Public Awareness Campaign to inform prosperity owners of their liability and the penalties associated with failing to lodge vacancy notifications.

Design Reform Recommendations:

- Apply to all land within Greater Melbourne.
- Use Site Value as the tax base to incentivise development.
- For strata title, levy at a rate greater than 1%, to account for the lower land value share of total property value.

Reforming Vacant Residential Property Tax can discourage investors from holding supply until market conditions favour them, i.e. when property is scarce and prices are high. By effectively taxing vacant properties, more existing supply will enter the market and increase affordability.

Prosper's Speculative Vacancies 10 report found for *Greater Melbourne*, via water usage data, that 69,004 properties were likely vacant in 2019, constituting a total vacancy rate of 4.7%.[11] Of these, 24,042 properties were found to consume zero litres of water per day and are thus recognised as absolutely vacant.

However, in the 2019-20 financial year, only 587 vacant residential properties were self-declared. This constitutes only 2.6% of the 22,684 absolutely vacant properties identified by our findings, over 14,000 of which were inside the vacancy tax boundaries. Either these properties met the criteria for exemption, or there are some issues with compliance.

Whilst the State Revenue office claims to achieve maximum compliance via forensic analysis, they do not collect water usage data and according to our investigations, not one fine has been issued as result of compliance oversight. Falling numbers of property owners' self-declaring vacancy suggest tax-payer indifference. Weak enforcement will limit the success of the VRLT and undermine a revenue stream which should earn between $160 million to $495 million. Additionally, the VRLT exempts vacant land and ring-fences master-planned communities, facilitating land banking.

The design and enforcement of the Vacant Residential Land Tax urgently requires reform.

We request that fines are increased for failure to self-report, water usage data is utilised for forensic analysis and public awareness campaigns are conducted. This will improve the enforcement of the tax. Investing in compliance should have high returns on investment. There is international precedent for these reforms, including the use of water data in Barcelona, and heavy $10,000 a day penalties for failure to self report in Vancouver.

2.3.2 Non-residential Property Activation Levy

Recommendations:

- Investigate the use of a property activation levy for Victoria

Prosper is pleased to see the Northern Territory Government has introduced a *Property Activation Levy* applied to CBD commercial land.[12] Like the residential vacancy tax, localised

[11] https://www.prosper.org.au/wp-content/uploads/2021/01/Prosper_SpeculativeVacancies_FINAL_web23.pdf
[12] https://treasury.nt.gov.au/dtf/territory-revenue-office/property-activation-levy

property activation levies would incentivise landholders of unused/underutilised non-residential property to reduce occupancy costs to businesses.

If the tax is well designed, landholders of vacant land will develop/occupy their own land, offer cheaper/discounted rent to attract businesses, or put their property on the market at a discount to businesses looking to develop/occupy to avoid the tax. This will ensure the rental market remains competitive for tenant businesses, helping them to stay open and survive.

2.4 First Home Buyers Grants

Recommendations:

- First homebuyer grants, and other grants such as Homebuilder, should not be usable for housing deposits when considering borrowing capacity.
- Continue to phase out the Regional First Homebuyer's Grant
- Buyer grants should be phased out in favour of fiscally sustainable buyer assistance that does not provide endless grants to private acquisitions of land as an investment i.e. private and community shared equity models.

Prosper has long advocated that buyer subsidies be phased out, due to their substantial effect in driving prices up. This effect is exacerbated by borrowers being able to increase their deposit size and leverage their borrowing capacity multiple times against the grant. We also note that this is what makes stamp duty (including on investors) so potent in suppressing property price growth - the primary limiting factor for borrowing and bidding up prices is how much equity (deposit) is available, and stamp duty reduces this upfront.

Prosper would suggest that administrative efforts be made to ensure these grants cannot be leveraged off by the banking system, to reduce excess leveraging and property price inflation. In the short term this might be desired to prop up the property sector and bring more private spending multipliers/leverage off the back of the public grant. However in the medium-long term this is undesirable due to the rapid price inflation that can result.

The regional FHBG should continue to cease on 1st of July as planned. There are substantial pricing pressures now in rural areas. Locals already face pricing pressures from e-workers fleeing the city. Government should not accentuate this situation.

We are encouraged by the government's willingness to pursue and expand alternative forms of assistance such as shared equity. The government should continue to prioritise expanded funding to these *fiscally self-funding* forms of assistance that allow people to become homeowners without having to take a full financial investment stake in their property.

3. Revenue policy

3.1 State Land Tax

Recommendations:

- Retain land tax thresholds to grow tax revenue through (efficient) land tax bracket creep
- Focus future tax cuts or concessions on non-land based taxes
- Retain the land tax based without making further exemptions and concessions
- Phase out CityLink land tax exemption over the medium term.

State Land Tax continues to be a highly efficient and progressive source of revenue, which has minimal impact on investment, employment and wages. The Government should continue to rely on this revenue source, and avoid cuts to land tax rates, threshold increases or expansion of exemptions and concessions.

The land tax exemption to clubs is also a further undermining of the land tax base, whereas this support should have been more adequately covered via direct cash grants that do not discriminate on the tenure clubs choose to operate on.

Prosper also notes that the CityLink land tax expenditure continues even after an extension of tolling rights. While tolling revenues have no doubt taken a hit during COVID, it remains to be seen if relatively protected, regulated revenue streams like Citylink tolling rights will be shouldering their fair share of the burden in rebuilding the state post-COVID.

We suggest that the government look to phase out this tax expenditure over the medium term, when it becomes clear that Citylink continues to provide super profits to its owners while other businesses struggle to recover. It is notable that publicly owned roads will not necessitate these concessions.

3.2 Development revenues

Recommendations:

- Support value capture within a reformed developer contributions framework
- Reimagine the Growth Area Infrastructure Contribution (GAIC) as a Rezoning Windfall Gains Tax

Developer contributions and related value capture mechanisms need to be comprehensively reformed and put into place statewide. Many regional Victorian councils are facing strong migration and development with little experience or capacity to manage it. They lack the revenue mechanisms to fund this expansion without putting pressure on stretched budgets and the capped rating system. Failure to resolve this will reduce councils to ad hoc, opaque, and ineffective s173 agreements.

3.2.1 Developer contributions

As highlighted by the Victoian Auditor General, Victoria lacks an overarching framework for developer contributions.[13]

The audit demonstrates that Developer Contributions Plans (DCPs) are being used in only 24 of 79 local government areas. The audit reports that the absence of systematic developer contributions in the city of Whitehorse, for example, equates to foregone revenue of $4.16 million across 2016–18 from development in Box Hill alone.

We have a system that is complicated for all stakeholders and falls short of its potential to promote virtuous cycles of private and public investment. It is clear that State and local governments are not receiving the revenue that a reformed developer contributions system could deliver.

Existing DCPs including the new Infrastructure Contribution Plans (ICPs) take the form of user pays and impact fees, a means by which new development offsets the needs created by the cumulative development process. There is a nexus between new infrastructure needs and new development. Notably DCPs are capitalised into lower land values, thereby having *zero negative impacts* for housing affordability.[14]

This makes DCP/ICPs an efficient and useful source of cost recovery, but not an *equitable* form of land value capture. Changes to planning rules such as rezoning for higher uses, reduced car parking and/or floor area requirements create windfall gains to land value. These regulatory changes grant additional development rights; the permissible development envelope expands.[15]

The standardised per hectare formulation benchmarked against infrastructure provision costs of Victoria's ICPs bears no reference to the market value of the additional development rights from rezoning, for example. *An effective value capture mechanism captures value proportional to the market value of benefits received.*

The Growth Area Infrastructure Contribution (GAIC) is a limited example of a value capture instrument. The Floor Area Uplift/Floor Area Ratio (FAR/FAU) scheme operating in the City of Melbourne is another. The Government is to be congratulated for extending the FAR/FAU scheme to Fishermans Bend.

Victoria needs a reformed, overarching framework of developer contributions based on sound principles of justice that incorporates 'value capture' instruments. This need is most obvious when it comes to windfall gains from rezoning.

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[13] Victorian Auditor General's Office (18 March 2020) *Managing Developer Contributions* https://www.audit.vic.gov.au/sites/default/files/2020-03/20200318-Development-Contrib-report_0.pdf

[14] Murray, C.K., 2018. Developers pay developer charges. *Cities*, *74*, pp.1-6. https://doi.org/10.1016/j.cities.2017.10.019

[15] See Spiller, M., Spencer, A., Fensham, P. (Feb 2017) *Value capture through development licence fees* SGS Economics and Planning https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-Value_capture_through_development_licence_fees.pdf

3.2.2 Reimagine the Growth Area Infrastructure Contribution (GAIC) as a Rezoning Windfall Gains Tax

GAIC liabilities are based on historical market values of land brought into the urban growth zone, levied on a per hectare basis. It is a very limited rezoning windfall gains tax. However, the GAIC can be reimagined and extended to encompass all land rezonings in Victoria.

A reimagined GAIC would operate similarly to the ACT's *Lease Variation Charge*.[16] Proponent developers seeking a planning scheme amendment to rezone a property would be liable for a charge equivalent to 75% of the uplift in the market price generated by the rezoning.

Revaluations are already provided annually by the Valuer-General, and liabilities could be calculated on a property by property basis, or based on a standardised charge that aligns with local market movements as per the ACT.

For local governments preparing strategic land use plans, such a scheme could operate similarly to the GAIC whereby liability was triggered at transfer of title, subdivision, acquisition or issuance of a building permit. Exemptions for transfers under 5ha or acquisitions under $1million would be removed.

Such a scheme could be administered by the State Revenue Office under the framework currently used for the GAIC. Windfall gains taxation would deliver significant revenue for infrastructure and lower land prices. Estimates of forgone value for Victoria are in the range of $5.7bn p.a.[17]

Table 1: Estimated revenue from adoption of ACT system of capturing planning windfalls

	Capital city median price	Private new dwelling completions	Price ratio	Dwelling ratio	Total markup	Revenue 2018-19 ($m)
NSW	$805,000	73,420	1.3	15.0	20.0	8,218
Victoria	$635,000	64,953	1.1	13.3	14.0	5,735
Queensland	$492,000	39,008	0.8	8.0	6.5	2,669
SA	$428,000	11,942	0.7	2.4	1.7	711
WA	$436,000	16,387	0.7	3.4	2.4	993
Tasmania	$459,000	2,691	0.8	0.6	0.4	172

[16] http://www.planning.act.gov.au/topics/design-and-build/fees/change_of_use_charge_-_lease_variation_charge

[17] Murray, C., & Frijters, P. (2017). Game of Mates: How favours bleed the nation. Cameron Murray. p.20

NT	$389,000	768	0.6	0.2	0.1	42
ACT	$604,000	4,882	1.0	1.0	1.0	410
Total						18,949

Sources: ACT Suburban Land Authority 2018-19 annual report (total SLA return), ACT 2018-19 Statement of Finances (LVC revenue), CoreLogic capital city medians (Sep-19), ABS 8752.0 dwelling completions (trend).

The ACT scheme is just one extant model from an Australian jurisdiction. Treasury can provide leadership by:

- Undertaking detailed investigation of the applicability and adaptation of successful rezoning windfall gains taxes available from other jurisdictions, and
- Quantify land value uplifts due to rezoning decisions and the revenue impact of rezoning windfall gains taxation to build the business case for future implementation.

Quantification of the benefits flowing to landholders from changes to the planning scheme would assist local council officers relying on s173 agreements to ensure a fair community return.

4. Miscellaneous

4.1 Update Parliamentary websites

Recommendations:

- Invest in updating end user website and IT resources for the public

The user interface and search capabilities of parliamentary websites are dated and rudimentary. It is in the public interest to invest in updating this infrastructure so public interest stakeholders can easily access data and information. We suggest that while money is cheap and the need for stimulus is high, that the government invest in this infrastructure.

More effective search functions across the Hansard, legislation and parliamentary websites should be implemented.

4.2 Heritage protections

Recommendations:

- Consider more effective penalties for unlawful demolition of heritage buildings e.g. hefty capital gains taxes, compulsory acquisition.
- Refrain from penalties that put valuable land out of use for long periods, when such land or revenue from it could further public purpose.

The Government’s move to stop development from unlawful demolition of heritage buildings is admirable. Current proposals to prohibit development for 10 years may not address the perverse incentives generated by Victoria’s heritage requirements.

The problem is the rent gap: profit is greater if heritage protections can be avoided or undermined. Rent gap economics is at work also in the ‘demolition by dereliction’ eyesores dotted around the state.

When a property owner unlawfully demolishes a heritage building, the ban on development still allows the speculative future value of development from the time the ban ends to capitalise into the site value.

A property owner could still demolish a listed building, sell the site with the ban, and still pocket the speculative value of the right to develop that site without heritage encumbrances in 10 years time. This is profitable if the increase in value of the property outweighs the sum of potential income collected from the property over that 10 year period. Additionally, it means the site will be unused for 10 years, which is a poor social outcome for land use.

A superior way to solve this problem is to impose up to a 100% capital gains tax (or land value uplift tax), on the change in value of the property from before it was demolished, and its sale price (or market value, whichever is higher) upon next sale. These funds could be allocated to Heritage Victoria.

Another more effective way of achieving this would be compulsory acquisition at the pre-demolition market value. Acquisition could bring public land into use for affordable housing, auctioned etc.

Conclusion

Prosper thanks the treasury and the government for ongoing reform efforts. We hope our contributions are of some use and that revenue policy can continue to improve over the coming years.

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